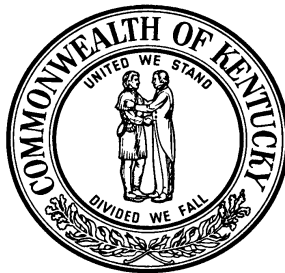


**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2011 UNMINED COAL TAXES**

**For The Period
July 16, 2011 Through July 16, 2012**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY SHERIFF'S SETTLEMENT - 2011 UNMINED COAL TAXES

**For The Period
July 16, 2011 Through July 16, 2012**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Unmined Coal Taxes for the Leslie County Sheriff for the period July 16, 2011 through July 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,282,453 for the districts for 2011 Unmined Coal Taxes, retaining commissions of \$94,100 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,177,061 to the districts for 2011 Unmined Coal Taxes. Taxes of \$10,450 are due to the districts from the Sheriff and refunds of \$138 are due to the Sheriff from the taxing districts.

Report Comments:

- 2011-01 The Sheriff Lacks Adequate Segregation Of Duties
- 2011-02 The Sheriff Should Improve Internal Controls Over Monthly Reconciliation Procedures
- 2011-03 The Sheriff Should Make Deposits Daily And Prepare Daily Checkout Sheets
- 2011-04 The Sheriff Should Distribute Investment Earnings

Deposits:

The Sheriff's deposits as of April 16, 2012 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$459,188

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the Leslie County Sheriff's Settlement - 2011 Unmined Coal Taxes for the period July 16, 2011 through July 16, 2012. This tax settlement is the responsibility of the Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Leslie County Sheriff's taxes charged, credited, and paid for the period July 16, 2011 through July 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2013 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Honorable Paul Howard, Leslie County Sheriff

Members of the Leslie County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

2011-01 The Sheriff Lacks Adequate Segregation Of Duties

2011-02 The Sheriff Should Improve Internal Controls Over Monthly Reconciliation Procedures

2011-03 The Sheriff Should Make Deposits Daily And Prepare Daily Checkout Sheets

2011-04 The Sheriff Should Distribute Investment Earnings

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen

Auditor of Public Accounts

March 5, 2013

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SHERIFF'S SETTLEMENT - 2011 UNMINED COAL TAXES

For The Period July 16, 2011 Through July 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal - 2011 Taxes	\$ 336,185	\$ 570,837	\$ 1,225,157	\$ 275,265
Penalties	696	1,182	2,536	570
Gross Chargeable to Sheriff	336,881	572,019	1,227,693	275,835
<u>Credits</u>				
Exonerations	1,212	2,057	4,416	992
Discounts	5,135	8,714	18,729	4,204
Delinquents:				
Real Estate	11,802	20,040	43,010	9,664
Total Credits	18,149	30,811	66,155	14,860
Taxes Collected	318,732	541,208	1,161,538	260,975
Less: Commissions *	13,546	23,001	46,462	11,091
Taxes Due	305,186	518,207	1,115,076	249,884
Refunds	136	233	499	112
Taxes Paid	303,405	515,182	1,108,564	249,910
Due Districts or (Refund Due Sheriff) as of Completion of Audit	\$ 1,645	\$ 2,792	\$ 6,013	\$ (138)
		**		
* Commissions:				
4.25% on \$ 1,120,915				
4% on \$ 1,161,538				
** Special Taxing Districts:				
Library District		\$ 1,435		
Health District		441		
Extension District		761		
Soil Conservation District		155		
Due Districts		\$ 2,792		

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

July 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
July 16, 2012
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Leslie County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 16, 2012, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$459,188

Note 3. Tax Collection Period

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2011. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was July 16, 2011 through July 16, 2012.

Note 4. Interest Income

The Leslie County Sheriff earned \$264 as interest income on 2011 unmined coal taxes. As of March 5, 2013, the Sheriff owed \$129 in interest to the school district and \$31 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$5,107 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Leslie County Sheriff's Settlement - 2011 Unmined Coal Taxes for the period July 16, 2011 through July 16, 2012, and have issued our report thereon dated March 5, 2013. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Leslie County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-01, 2011-02, and 2011-03 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's Settlement - 2011 Unmined Coal Taxes for the period July 16, 2011 through July 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2011-04.

The Leslie County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Leslie County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

March 5, 2013

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period July 16, 2011 Through July 16, 2012

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

While reviewing the Sheriff's internal control procedures, we identified a lack of adequate segregation of duties over recordkeeping receipts and disbursements processes, and reconciliations. These control deficiencies are present because two office clerks' duties include receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, and preparing the daily checkout sheet. These employees also have the authority to prepare disbursement checks. The office manager's duties include receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations. While the Sheriff has stated his initials on bank statements are documentation of his review, this compensating control is not sufficient to mitigate the effects of the lack of adequate segregation of duties previously described.

A proper segregation of duties over accounting functions, such as receiving tax payments, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and reconciling the bank account monthly, is essential for preventing misappropriation of assets and/or inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving collecting tax payments from customers, preparing deposits, preparing daily checkout sheets, preparing monthly tax reports, preparing disbursements, and reconciling the bank account. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions.

Additionally, the Sheriff could provide this oversight. If the Sheriff chooses to implement compensating controls, the Sheriff should document his oversight on the appropriate source document. The following are examples of other controls the Sheriff could implement:

- The Sheriff, or his designee, could periodically recount and deposit cash receipts. This could be documented by initialing the daily checkout sheet and deposit slip.
- The Sheriff, or his designee, could periodically compare batched totals, to the daily tax collection report and to the deposit slip, resolve any discrepancies, and document the review by initialing the deposit ticket.
- The Sheriff, or his designee, could compare total tax collections per the monthly reports to the totals per daily collection reports, resolve any discrepancies, and document his review by initialing the reports.
- The Sheriff could examine checks prepared by the office manager and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

Sheriff's Response: We will comply.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 16, 2011 Through July 16, 2012
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2011-02 The Sheriff Should Improve Internal Controls Over Monthly Reconciliation Procedures

While performing the audit, we identified material weaknesses related to monthly reconciliation procedures that resulted in discrepancies in the Sheriff's tax records. This weakness allowed the following to occur:

- Monthly reports did not always include all collections. In one month, one day of collections was omitted from one monthly report; however, the Sheriff's office did not detect the error until after the tax sale date.
- Monthly distributions for May 2012 were not paid to the districts in a timely manner. The Sheriff's office did not obtain extensions for late payments.

Effective internal controls over monthly tax processing should be designed to ensure accurate financial reporting in which distributions are paid timely and reflective of actual amounts collected. KRS 134.191 requires the Sheriff to provide monthly reports and distribute funds to each district for which the Sheriff collects taxes by the tenth day of each month. We recommend the Sheriff strengthen internal control procedures to ensure taxes are distributed timely and accurately.

Sheriff's Response: We will comply.

2011-03 The Sheriff Should Make Deposits Daily And Prepare Daily Checkout Sheets

During the course of our audit, we noted that deposits were not made on a daily basis as required by KRS 64.840(2). We tested the daily deposit report for April 16, 2012 and noted that those collections were not deposited until April 20, 2012. In addition, checkout sheets were not prepared for daily collections. The Department for Local Government (DLG) was given authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual requires that deposits be made daily and properly documented by a daily checkout sheet. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to possible theft. We recommend the Sheriff implement controls over the deposit process to ensure checkout sheets are prepared and deposits are made daily.

Sheriff's Response: Office staff has been instructed and will comply.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 16, 2011 Through July 16, 2012
(Continued)

STATE LAWS AND REGULATIONS:

2011-04 The Sheriff Should Distribute Investment Earnings

The Sheriff did not distribute interest earned on tax collections to either the school or the fee account in a timely manner. The lack of adequate segregation of duties within the Sheriff's office (as described in comment # 2011-01) allowed this instance of noncompliance to occur and not be detected. As a result, the school and the fee account did not receive their share of income in a timely manner. KRS 134.140 requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." KRS 134.140 allows the remaining monthly interest to be transferred to the Sheriff's fee account to pay the lawful expenses of his office. The Sheriff should distribute the investment earnings at the same time as monthly tax collections. We recommend the Sheriff implement internal controls that ensure compliance with KRS 134.140 and pay the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response: We will comply.

